

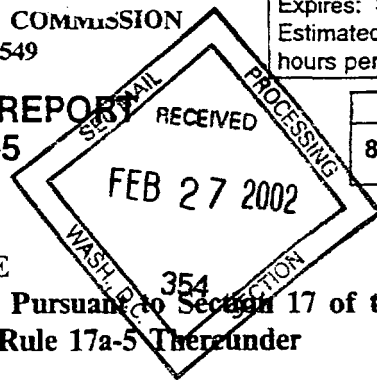


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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**



SEC FILE NUMBER  
8-53097

**FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Macquarie Capital Partners LLC

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
11 S. LaSalle Street, 4th Floor

Chicago, Illinois 60603  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Donald E. Suter (312) 499-8580  
(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Arthur Andersen, LLP  
(Name — if individual, state last, first, middle name)  
33 West Monroe St., Chicago, Illinois 60603-5385  
(Address) (City) (State) (Zip Code)

CHECK ONE:  
☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**  
**MAR 15 2002**  
**THOMSON FINANCIAL**

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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## OATH OR AFFIRMATION

I, Donald E. Suter, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of \_\_\_\_\_, as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

[Signature]  
Signature  
Managing Principal  
Title

Kimberli K Lippiatt  
Notary Public



This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**MACQUARIE CAPITAL PARTNERS LLC**  
**And Subsidiary**

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2001

Together with Auditors' Report

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of  
Macquarie Capital Partners LLC:

We have audited the accompanying consolidated statement of financial condition of Macquarie Capital Partners LLC and subsidiary as of December 31, 2001 and the related consolidated statements of operations, partners' equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedules referred to below based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Macquarie Capital Partners LLC and subsidiary as of December 31, 2001 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Arthur Andersen LLP*

Chicago, Illinois  
February 25, 2002

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**Macquarie Capital Partners LLC  
and Subsidiary**

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

**As of December 31, 2001**

**ASSETS**

|                                 |                     |
|---------------------------------|---------------------|
| Cash and cash equivalents       | \$ 7,062,303        |
| Accounts receivable             | 205,913             |
| Notes receivable from employees | 104,802             |
| Investments at market           | 1,492,578           |
| Equipment, net                  | 214,551             |
| Other assets                    | <u>145,393</u>      |
| Total assets                    | <u>\$ 9,225,540</u> |

**LIABILITIES AND PARTNERS' EQUITY**

|   |                     |
|---|---------------------|
| Liabilities:                                  |                     |
| Accounts payable and accrued expenses         | \$ 3,693,235        |
| Deferred compensation payable                 | <u>1,492,578</u>    |
| Total liabilities                             | <u>5,185,813</u>    |
| Partners' equity:                             |                     |
| Class A Units                                 | \$ 3,865,446        |
| Class B Units                                 | 378,141             |
| Class C Units                                 | (184,027)           |
| Accumulated other comprehensive income (loss) | <u>(19,833)</u>     |
| Total partners' equity                        | <u>4,039,727</u>    |
| Total liabilities and partners' equity        | <u>\$ 9,225,540</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**Macquarie Capital Partners LLC  
and Subsidiary**

**CONSOLIDATED STATEMENT OF OPERATIONS**

**Year Ended December 31, 2001**

**REVENUES:**

|  |                   |
|--|-------------------|
| Placement agent fees and trading commissions | \$ 10,039,239     |
| 12b-1 fees                                   | 344,218           |
| Interest and other income                    | <u>253,765</u>    |
| Total revenues                               | <u>10,637,222</u> |

**EXPENSES:**

|                                     |                   |
|-------------------------------------|-------------------|
| Payroll and related costs           | 6,667,213         |
| Professional fees                   | 885,096           |
| Occupancy costs                     | 569,568           |
| Office expenses                     | 285,591           |
| Marketing and presentation costs    | 211,837           |
| Travel and entertainment            | 558,356           |
| Industry databases and publications | 100,805           |
| Regulatory fees and expenses        | 53,786            |
| Insurance expense                   | 100,737           |
| Recruitment and relocation          | 174,547           |
| Restructuring costs                 | 550,805           |
| Sales and franchise taxes           | 53,981            |
| Depreciation                        | 145,729           |
| 12b-1 service reimbursement         | 344,218           |
| Other expenses                      | <u>249,929</u>    |
| Total expenses                      | <u>10,952,198</u> |

Loss before formation costs and deferred compensation (314,976)

Formation costs (646,409)

Deferred compensation costs (2,818,307)

Net loss (3,779,692)

Other comprehensive income (loss):

Foreign currency translation adjustments (19,833)

Comprehensive income (loss) \$ (3,799,525)

The accompanying notes are an integral part of these consolidated financial statements.

**Macquarie Capital Partners LLC  
and Subsidiary**

**CONSOLIDATED STATEMENT OF PARTNERS' EQUITY**

**Year Ended December 31, 2001**

|   | <u>Class A<br/>Units</u> | <u>Class B<br/>Units</u> | <u>Class C<br/>Units</u> | <u>Accumulated<br/>Comprehensive<br/>Income (loss)</u> | <u>Total<br/>Partners'<br/>Equity</u> |
|---|--------------------------|--------------------------|--------------------------|--|---------------------------------------|
| Initial contributions                       | \$ 2,000,000             | \$ 512,695               | \$ 9,480                 | \$ —   | \$ 2,522,175                          |
| Capital Contributions                       | 2,250,000                | 3,068,307                | —                        | —  | 5,318,307                             |
| Net loss                                    | (384,554)                | (3,202,861)              | (192,277)                | —  | (3,779,692)                           |
| Redemptions                                 | —                        | —                        | (1,230)                  | —  | (1,230)                               |
| Foreign currency translation<br>adjustments | <u>—</u>                 | <u>—</u>                 | <u>—</u>                 | <u>(19,833)</u>  | <u>(19,833)</u>                       |
| Balances at<br>December 31, 2001            | <u>\$ 3,865,446</u>      | <u>\$ 378,141</u>        | <u>\$(184,027)</u>       | <u>\$ (19,833)</u>                                     | <u>\$4,039,727</u>                    |

The accompanying notes are an integral part of these consolidated financial statements.

**Macquarie Capital Partners LLC  
and Subsidiary**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2001**

**OPERATING ACTIVITIES:**

|  |                  |
|--|------------------|
| Net loss   | \$ (3,779,692)   |
| Adjustments to reconcile net loss to cash flows<br>provided by operating activities: |                  |
| Depreciation expense   | 145,729          |
| Realized loss on dispositions of fixed assets  | 19,401           |
| Formation costs  | 2,818,307        |
| Increase in accounts payable and accrued expenses                                    | 3,693,235        |
| Increase in other liabilities  | 1,492,578        |
| Increase in notes receivable   | (104,802)        |
| Decrease in accounts receivable  | 73,774           |
| Increase in other assets   | <u>(145,393)</u> |
| Net cash flows provided by operating activities                                      | <u>4,213,137</u> |

**INVESTING ACTIVITIES:**

|   |                    |
|---|--------------------|
| Purchase of fixed assets                    | (146,673)          |
| Investment in deferred compensation plan    | <u>(1,492,578)</u> |
| Net cash flows used in investing activities | <u>(1,639,251)</u> |

**FINANCING ACTIVITIES:**

|   |                  |
|---|------------------|
| Proceeds from issuance of Class A units                     | 4,250,000        |
| Proceeds from issuance of Class B units                     | 250,000          |
| Proceeds from issuance of Class C units, net of redemptions | <u>8,250</u>     |
| Net cash flows provided by financing activities             | <u>4,508,250</u> |

|  |                     |
|--|---------------------|
| Net increase in cash and cash equivalents    | 7,082,136           |
| Effect of foreign currency translations      | (19,833)            |
| Cash and cash equivalents, beginning of year | <u>—</u>            |
| Cash and cash equivalents, end of year       | <u>\$ 7,062,303</u> |

**NON-CASH INVESTING AND FINANCING ACTIVITIES:**

|  |                   |
|--|-------------------|
| Contribution of equity of Capital Markets Limited    | \$ <u>313,085</u> |
| Contribution of fixed assets and accounts receivable | \$ <u>199,610</u> |
| Contribution of formation costs                      | <u>2,818,307</u>  |

The accompanying notes are an integral part of these consolidated financial statements.

**Macquarie Capital Partners LLC  
and Subsidiary**

**Notes to Consolidated Financial Statements**

**(1) General Information and Summary of Significant Accounting Policies**

On January 2, 2001, Security Capital Group Incorporated ("Security Capital") entered into a joint agreement with Macquarie Bank Limited ("Macquarie Bank") whereby a new entity, Macquarie Capital Partners LLC ("MCP"), succeeded to the business previously conducted by Security Capital Markets Group Incorporated ("Capital Markets").

Macquarie Bank contributed cash in exchange for 1,000 Class A Units, representing a 40 percent equity interest in MCP.

Security Capital contributed certain fixed assets and accounts receivable of Capital Markets to MCP, in addition to contributing its investment in Security Capital Markets Group Limited ("Markets Limited"), a wholly owned subsidiary of Security Capital in the United Kingdom ("UK"). Security Capital received 1,000 Class B Units and a 40 percent equity interest in MCP in exchange for its contribution. Markets Limited's name was subsequently changed to Macquarie Capital Partners Limited ("MCP Ltd.") and became a wholly-owned subsidiary of MCP.

Management members contributed cash in exchange for Class C Units and a 20 percent equity interest in MCP.

Macquarie Bank and Security Capital agreed to make additional cash contributions of \$8,250,000 and \$4,250,00, respectively. In 2001, additional cash of \$2,250,000 was contributed by Macquarie Bank and \$250,000 by Security Capital.

MCP and MCP Ltd. (collectively, the "Company") was formed for the purpose of providing global access to capital and providing investment banking services including acting as a placement agent for private and public offerings and providing financial advisory services. Additionally, MCP provides brokerage services by arranging trades of publicly traded securities. MCP is a registered broker-dealer in the United States and has offices in Chicago and New York. MCP Ltd. is a licensed securities dealer in the UK and maintains an office in London, UK.

MCP engages in trading publicly held securities, on which it receives commissions. MCP has an agreement with a third party broker-dealer who executes and clears the trades and forwards the commissions to MCP. MCP does not take a position in any securities and does not hold customers' securities at any time.

**Principles of Financial Presentation**

The accompanying consolidated financial statements include the results of the Company. All intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for fair presentation of the Company's consolidated financial statements for the period presented.

**Macquarie Capital Partners LLC  
and Subsidiary**

**Notes to Consolidated Financial Statements-(Continued)**

Cash and Cash Equivalents

The Company considers all cash on hand, demand deposits with financial institutions and short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Equipment

Equipment is recorded at cost. Depreciation is computed on the straight-line method over the estimated useful life of the equipment (generally three to ten years).

Investment

The Company's investments represent a deferred compensation plan for management members. Investments are recorded at market value and consist of investments in mutual fund equity securities. Changes in the market values are recorded as other income with comparable changes to deferred compensation payable and deferred compensation expense.

Fees

Placement agent fees are recognized by the Company pursuant to the applicable placement agreement, generally upon the closing of the individual security issue for placement fees or upon completion of specified tasks. Block trading commissions are recorded upon execution of the trade.

Restricted Stock Units and Options

Certain employees received restricted stock units and options of Security Capital stock. Under generally accepted accounting principles, these amounts are marked to market and reported as deferred compensation expense over the vesting period with an offsetting capital contribution from Security Capital. In allocating MCP's net income, the amount attributable to this expense is allocated to Security Capital. This amounted to approximately \$2,190,000 in 2001 and has been included in deferred compensation costs.

Formation Costs

MCP incurred start-up costs to form the Company in the amount of approximately \$646,000. Security Capital and Macquarie Bank each paid \$250,000 of the start-up costs on the Company's behalf.

Deferred Compensation

The Company has a deferred compensation plan for its management members represented by the Company's investments at market. Security Capital provided funds of \$1.6 million to the Company for the deferred compensation plan which vests over 3 years. The vested amount is reported as deferred compensation expense with an offsetting capital contribution from Security Capital. In allocating MCP's net income, the amount attributable to this expense is allocated to Security Capital. This amounted to approximately \$628,000 in 2001 and has been included in deferred compensation costs.

**Macquarie Capital Partners LLC  
and Subsidiary**

**Notes to Consolidated Financial Statements-(Continued)**

Other Comprehensive Income

Other comprehensive income for the Company consists of foreign currency translation adjustments, which have been recorded as a component of equity pursuant to Statement of Financial Accounting Standard No. 52. MCP Ltd. operations, whose functional currency is not the U.S. dollar, translates its financial statements into U.S. dollars. Assets and liabilities are translated at the exchange rate at the end of the period. Income and expenses are translated at the average exchange rate during the period. Gains and losses resulting from translation are included in accumulated other comprehensive income as a separate component of partners' equity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(2) Related Party Transactions**

Security Capital

The following summarizes the services provided by Security Capital and its subsidiaries to the Company for the year ended December 31, 2001:

|  | <u>MCP</u>          | <u>MCP Ltd.</u> | <u>Total</u>        |
|--|---------------------|-----------------|---------------------|
| Accounting, administrative and IT services | \$ 459,860          | \$ 18,655       | \$ 478,515          |
| Subleased office space                     | 286,562             | 175,849         | 462,411             |
| Other services                             | —                   | 4,148           | 4,148               |
| 12b-1                                      | <u>344,218</u>      | <u>—</u>        | <u>344,218</u>      |
|  | <u>\$ 1,090,640</u> | <u>198,652</u>  | <u>\$ 1,289,292</u> |

Expenses for accounting, administrative and IT services are included in professional fees. Expenses for subleased office space are included in occupancy expense. Expenses for other services are included in marketing and presentation. At December 31, 2001, the Company had an outstanding balance due to Security Capital and its subsidiaries of \$116,376, which is included in accounts payable and accrued expenses.

The following summarizes the services provided by MCP to Security Capital, its subsidiaries and consolidated investees for the year ended December 31, 2001:

|                      |                    |
|----------------------|--------------------|
| Placement agent fees | \$3,602,701        |
| 12b-1                | 344,218            |
| Other income         | <u>19,429</u>      |
|                      | <u>\$3,966,348</u> |

**Macquarie Capital Partners LLC  
and Subsidiary**

**Notes to Consolidated Financial Statements-(Continued)**

As the distributor of the affiliated mutual fund Security Capital Real Estate Mutual Funds Incorporated ("the Mutual Fund"), MCP receives 12b-1 fees of .25% of the average daily net assets of the Mutual Fund. The Mutual Fund's expenses that exceed their fee cap are paid by Security Capital Research and Management Incorporated ("SC-R&M"), an indirect wholly-owned subsidiary of Security Capital. MCP has agreed to transfer the fees received from the Mutual Fund to SC-R&M to partially offset SC-R&M's expenses. For the year ended December 31, 2001, the fee revenues received and reimbursed were \$344,218.

Macquarie Bank

The following summarizes the services provided by Macquarie Bank and its subsidiaries to the Company for the year ended December 31, 2001:

|  | MCP              | MCP Ltd.          | Total             |
|--|------------------|-------------------|-------------------|
| Accounting, administrative and IT services | \$ —             | \$ 69,641         | \$ 69,641         |
| Subleased office space                     | 7,333            | 73,682            | 81,015            |
| Other services                             | 55,000           | 3,454             | 58,454            |
|  | <u>\$ 62,333</u> | <u>\$ 146,777</u> | <u>\$ 209,110</u> |

Accounting, administrative and IT services are included in professional fees. Expenses relating to subleased office space are included in occupancy expense, other services of \$55,000 are included in professional fees and \$3,454 are included in office expenses. At December 31, 2001 the Company had a balance due to Macquarie Bank of \$209,110, which is included in accounts payable and accrued expenses.

During 2001, the Company received fee revenues of \$359,946 from Macquarie Bank for placement agent services provided.

**(3) Equipment**

Equipment consisted of the following at December 31, 2001:

|                                 |                   |
|---------------------------------|-------------------|
| Computer equipment and software | \$ 224,955        |
| Office furniture and equipment  | 126,586           |
| Accumulated depreciation        | <u>(136,990)</u>  |
|                                 | <u>\$ 214,551</u> |

**(4) Contingent Liability**

The Company recorded a contingent liability provision of \$150,000 in connection with a trade executed by the Company's clearing broker in December 2001. The Company is in discussion with the clearing broker regarding this matter and believes the provision to be adequate.

**Macquarie Capital Partners LLC  
and Subsidiary**

**Notes to Consolidated Financial Statements-(Continued)**

**(5) Income Taxes**

As a limited liability corporation, MCP is not subject to U.S. income taxes. Taxable earnings of MCP flow-through to the partners and are subject to income taxes at the individual level. MCP Ltd. is subject to UK corporate taxes calculated using the income tax rates in effect under existing legislation. Due to a current year operating loss, MCP Ltd. has a deferred tax asset that will be available to benefit taxable income in future years. A reserve allowance was established for the entire amount of the deferred tax asset.

**(6) Reserve Requirements and Net Capital Requirements**

MCP is exempt under Section k(2)(i) from the Securities and Exchange Commission Reserve Requirements (Rule 15c3-3).

MCP is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. At December 31, 2001, MCP was in compliance with all requirements as computed in Schedule I.

The following is a summary of certain financial information of the Company's consolidated subsidiary:

|                   | <u>Total<br/>Company</u> | <u>Effect of<br/>Consolidation<br/>of MCP Ltd.</u> | <u>MCP</u>   |
|-------------------|--------------------------|--|--------------|
| Total assets      | \$ 9,225,540             | \$ 1,213,009                                       | \$ 8,012,531 |
| Total liabilities | 5,185,813                | 1,213,009  | 3,972,804    |
| Total equity      | 4,039,727                | —  | 4,039,727    |

The Company's investment in MCP Ltd. of \$1,471,982 is not included as capital in computation of the Company's net capital under rule 15c3-1.

MCP Ltd. is subject to maintenance of adequate Financial Resource Requirements (FRR) as promulgated by the Financial Securities Authority (FSA) in the UK. MCP Ltd. was in compliance with its regulatory requirements at December 31, 2001.

Computation of Net Capital Under Rule 15c3-1 of the  
Securities and Exchange Commission  
As of December 31, 2001

**Schedule I**

Net capital:

|                            |                  |
|----------------------------|------------------|
| Total partners' equity     | \$ 4,039,727     |
| Investment in subsidiary   | (1,471,982)      |
| Other non-allowable assets | <u>(421,397)</u> |

Net capital before haircut 2,146,348

Haircut on securities (92,104)

Net Capital \$ 2,054,244

Aggregate indebtedness (AI) \$ 2,480,227

Computation of basic net capital requirement:

Minimum net capital required \$ 310,028

Excess net capital \$ 1,744,216

Excess (deficiency) net capital at 1,000%  
(net capital - 10% of AI) \$ 1,806,221

There are no material differences between the above computation and the computation included on a non-consolidated basis in the unaudited quarterly FOCUS Reports filed on Form x-17(a)-5, Part IIA.

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL  
ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5**

To the Board of Directors of  
Macquarie Capital Partners LLC

In planning and performing our audit of the financial statements and supplemental schedules of Macquarie Capital Partners LLC Incorporated (the "Company") for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provision of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following: (1) making quarterly securities examinations, counts, verifications, and comparisons, (2) recordation of differences required by Rule 17a-13, and (3) complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of an evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

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Our consideration of the internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purpose in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, and other regulatory agencies, which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and should not be used by anyone other than these specified parties.

Chicago, Illinois  
February 25, 2002

*Arthur Andersen LLP*